



STATE OF MISSISSIPPI  
OFFICE OF THE GOVERNOR

November 16, 2009

To the Members of the Mississippi Legislature:

For the seventh time since becoming Governor, I transmit to you my balanced Executive Budget Recommendation in accordance with Mississippi Code § 27-103-139. My budget recommendation for Fiscal Year 2011 contains tough decisions that must be made to ensure Mississippi provides essential services for its citizens while not breaking the bank now or crippling the state's financial future.

Last year was the first time since becoming Governor I submitted a budget recommendation during a period of declining state revenue; this year will be my second, and FY 2012 will, based on current trends, be my third. After all, Mississippi's long-term budgetary outlook could not be more austere, as declining revenues and increased costs already have forced me to order \$172 million in spending reductions for the current fiscal year. The revised revenue estimate for FY 2010 adopted by the Joint Legislative Budget Committee projects a total shortfall of over \$350 million for FY 2010. Further deep cuts to agencies are inevitable for FY 2010.

State law requires a balanced budget, and drastic spending reductions will be necessary to balance the shortfall for FY 2011, estimated at more than \$700 million. Unfortunately, FY 2012 is even bleaker: Current projections indicate that Mississippi will be faced with a budget gap of nearly \$1.2 billion during that fiscal year.

In the coming fiscal year, FY 2011, we will have significantly less revenue than in years past, as well as a significant reduction in the amount of federal stimulus money we have to spend – creating a structural deficit that leaves us no choice but to further reduce government spending. Toward this end, I am proposing a reduction of nearly 12 percent in the overall budget below FY 2010 appropriations, with some exceptions for those line-items we are not legally allowed to cut as well as specific priority services.

For example, I am recommending a five percent reduction for the Mississippi Development Authority, which plays a crucial role in creating new jobs by attracting new employers to Mississippi and encouraging existing businesses to continue investing within our borders. The Departments of Corrections and Public Safety, which have core law enforcement functions, will see a cut of 8 percent from FY 2010 appropriations. On the other hand, some agencies, like the Legislature and Attorney General's Office, saw budget reductions higher than 12 percent in order to bring them into parity with the rest of state government as compared to FY 2009 appropriations.

Obviously, a 12 percent reduction for most state agencies will require us to enact meaningful reform of what government does, and how it does it. That is why I have

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asked all state agencies to find innovative solutions to trimming the budget, including reviewing and renegotiating all contracts to save 5 to 10 percent. State agency heads need the ability to streamline their departments free from the encumbrances of the State Personnel Board. We must prioritize state spending on essential government services, and cull out the unnecessary ones. We must identify ways to improve efficiencies while maintaining quality services to our citizens. We must make the difficult but necessary decisions that taxpayers expect from us.

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It won't be easy, but above all else, we must understand that the FY 2011 budgeting process cannot be business as usual. Our most recent revenue report showed collections slipping 7.5 percent, or \$111.7 million, below our expectations for the first four months of this fiscal year. These October figures amount to 14 consecutive months where we have missed our revenue estimate and the 11th consecutive month in which the state actually collected less money compared to the previous year. One thing is clear: The numbers simply don't add up.

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My budget recommendation for Fiscal Year 2011 relies heavily on, and funds accordingly, six main principles:

- The most urgent need in Mississippi is to create more and better jobs. Where an agency plays a significant role in enhancing our job creation efforts, it is reflected in my recommended funding for that agency.
- The same is true of revenue collection. Raising taxes during an economic downturn slows recovery and puts an unfair burden on our taxpayers, but we cannot let tax cheats deprive the state of revenue it is owed. I propose increasing the budget of the Department of Revenue, so that it can hire additional auditors to collect money the state is owed.
- Government's first function is ensuring the public's safety. While nearly all agencies must experience spending reductions, I am recommending that law enforcement agencies take less of a spending reduction so that they may continue their vital service of protecting Mississippi families.
- While education is our No. 1 economic development issue and No. 1 quality of life issue, we must identify significant cost-savings in administrative budgets while enhancing educational opportunities for our children. We should judge the state's commitment to education by the results that are demanded and achieved, not by how much money politicians are willing to spend.
- The State of Mississippi must establish budget priorities, invest in state government entities that generate revenue, and streamline government by seeking efficiencies and savings, while allowing maximum flexibility for agency heads. I am recommending several specific actions that can be

taken by areas of state government to improve efficiencies, but I believe there are many others where savings can be achieved.

- Although Medicaid is an entitlement program, it is imperative that this agency achieve real cost-savings, along with the rest of state government. However, without a change in state law, Medicaid's hands will be tied from making substantial cost-savings to the current program. It's time to unshackle Medicaid so that we may achieve spending reductions without harming the quality of services provided to our citizens.

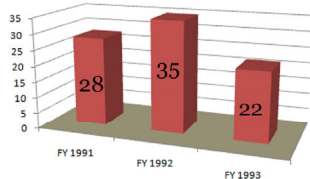
While much has been said about the current budget crunch in state government, I hope to provide you with information that clearly demonstrates two things: This budget crisis is real, and we cannot delay making difficult budget decisions. The FY 2011 budgeting process will require considerable budget discipline; it will mean we have to say "no" to even our friends and favorite programs.

This Executive Budget Recommendation is based on the FY 2011 revenue estimate approved by the Joint Legislative Budget Committee on November 5, 2009. Because of the bleak budget circumstances facing our agencies for FY 2011 and beyond, I wanted to give all agencies, regardless of whether or not they report to me, an opportunity to submit their ideas and prioritization of services to my office prior to developing my Executive Budget Recommendations. I am highly appreciative of those agencies that responded in great detail, prioritizing their services and breaking down administrative costs.

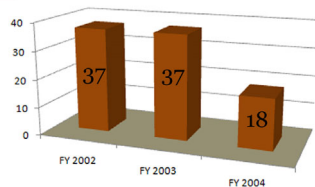
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## After Recession, Mid-Year Budget Cuts Continue

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after recession ending in 1991



No. of states with budget cuts  
after recession ending in 2002



In my last Executive Budget Recommendation, I wrote to you that "virtually every indicator points to decreasing state revenue." We knew this recession would not be as brief or shallow as were those of 1990-91 or 2000-01, but it is important to understand, from a historical perspective, that Mississippi is not likely to experience a full rebound for many years, and that we must budget accordingly.

Earlier this year, leaders from the National Governors Association told Congress that even with the federal stimulus impact, "states' fiscal picture will continue to deteriorate over the next two years." In fact, history has shown that states usually experience the worst fiscal conditions in the year after a national recession has ended. For example, according to the NGA, the recession that ended in 1991 resulted in 35 states cutting budgets the following year, and the recession that ended in 2002 resulted in 37 states cutting budgets the following year. However, the recession's impact continued to be felt among states in

the second years after the recession ended. Using past recessions as a guide, we can expect that most states, including Mississippi, will face budget shortfalls in 2011 and 2012.

### ***Mississippi cannot afford to delay difficult budget decisions***

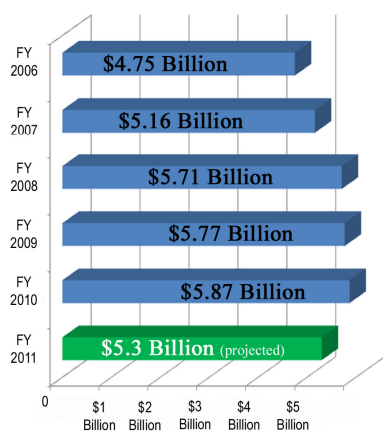
Along with declining revenue streams, Mississippi also faces several built-in expenses that will add to our projected shortfall for the 2011 fiscal year and continue into Fiscal Year 2012. As unemployment remains high and wages for citizens are reduced, more and more people will qualify for the Medicaid program; importantly, these increased costs will have to be paid by the state, since Medicaid's stimulus dollars will end in the middle of FY 2011. To meet this increased demand, projections indicate Medicaid will need \$200 million in FY 2011 over the appropriations for this budget year. The agency will need another \$220 million for FY 2012. The Mississippi Adequate Education Program formula calls for a significant increase, and the Public Employee Retirement System Board has proposed increasing employer contribution rates to fund the system through state dollars. Healthcare costs are rising in the state and school employees' health plan. Debt service, which the state cannot legally cut, has also increased. If action is not taken to mitigate the impact of these structural deficits, Mississippi faces a \$700 million budget gap going into the 2011 fiscal year.

However, we cannot approach FY 2011 with budget blinders; indeed, we must understand that while Mississippi faces a \$700 million shortfall for FY 2011, the estimated budget hole for the following fiscal year, FY 2012, is \$1.2 billion. In fact, Mississippi will no longer have access to nearly \$196 million in stimulus funding for education in FY 2012.

While we must hope for the best, it is of critical importance to prepare for the worst. Action must be taken immediately to address the FY 2011 budget shortfall so that Mississippi is better prepared for the FY 2012 budget.

### ***Prudent Usage of the Rainy Day Fund is Critical***

## **General Fund Equivalency Appropriations by Year**



Prudent, responsible budgeting practices by the state since 2004 has positioned us to better cope with declining revenues. I commend the Legislature for agreeing to fill the Rainy Day Fund to its statutory authority amount, which we now clearly see was the appropriate, and responsible, thing to do. Last year, I recommended that we use this fund prudently, with anticipation of spreading the fund balance over a four-year period. I appreciate the hard work of Senate Appropriations Chairman Nunnelee and House Appropriations Chairman Stringer to ensure that the Legislature kept their commitment. Pursuant to our agreement last year, I will once again recommend the state use no more than one-third of our remaining Rainy Day Fund reserves, or \$78 million, to cushion the revenue shortfall for FY 2011.

### ***Raising Taxes Is the Enemy of Controlling Spending***

Since I took office in 2004, I have repeatedly said that raising taxes is the enemy of controlling spending. Now, more than ever, we must get our spending under control, but let me be clear: Forcing our citizens to cough up more of their hard-earned money by raising taxes is not the right approach, particularly in these difficult budget times.

### ***Enhancing Educational Opportunities While Reducing Administrative Costs***

Make no mistake about it: some of the choices we need to make are going to be unpopular. We must keep the end goal in sight: Building a stronger, sustainable educational system to serve future generations of Mississippians.

That starts by reducing administrative costs in our educational system and building on student success. This is no easy task. The fact of the matter is that, even with the cuts doled out to K-12, community colleges and universities in Fiscal Year 2010, educational entities will have more money to spend this year on education than in FY 2009. The biggest reason for this is the federal stimulus package, which earmarked millions of dollars for education spending. It's important to remember that the federal stimulus money goes away at the end of FY 2011. Knowing that the current level of education funding is unsustainable when that occurs, we must prepare now for schools to have a soft landing when normal spending levels return.

In a recent interview regarding the budget, Rep. Cecil Brown told *The Clarion Ledger* if "we really want to run government like a business, we have to plan the way businesses do." I couldn't agree more. Successful businesses are the ones who efficiently manage administrative costs while focusing on providing quality, affordable services and products to their customers. Likewise, we should strive to replicate this business model in all of state government, including education. It's high time to recognize that Mississippi's utilization of 152 school districts across 82 counties is a model of inefficiency. Folding smaller districts together or coupling some of them into larger neighboring school districts will allow the state to channel money away from administrative costs and toward what should be the true focal point – the classroom.

Young people leaving our schools must be provided the skills necessary for competing at the college/university level as well as in a global society. Deliberative thought must be given to establishing criteria for consolidation: student performance, district size, financial stability, assessed valuation, the millage rate assessed for district support, potential administrative savings, and other factors impacting student opportunities. Reducing the number of districts by a third would save the state millions of dollars while improving the overall quality of education services to students. These tough decisions must be made in FY 2011. The full impact of consolidation – an estimated \$33.4 million savings – will come to fruition in FY 2012 when we see overall budget shortfalls grow as revenues likely continue to dwindle. We cannot afford to delay this decision any longer.

Consolidation of school districts is just one piece of our approach to reducing costs while providing a strong education to our schoolchildren. We can save up to \$18 million by suspending the “STEP” salary increase teachers automatically receive based on years of service. With thousands of Mississippians losing their jobs, I think it is fair that we ask our teachers to temporarily forgo these automatic pay increases. Also by holding STEP pay for a year, we can continue to fund the National Board Certification program to prevent any teachers from taking a pay cut.

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However, not all school districts can survive these rough budget times. That is why I propose the creation of an Education Liquidity Fund using \$25 million from the general fund that would make loans to cash-strapped school districts. The low-interest loans would carry a three-year term and only be utilized as a last resort. School districts would be expected to repay the loans as soon as revenues allow.

School district consolidation is a bold proposal, but cost-savings achieved through this initiative alone will not be enough to help Mississippi manage the FY 2011 shortfall. Since education accounts for more than 60 percent of the state budget, with K-12 accounting for nearly 49 percent, education at all levels must produce a large portion of the savings. Again, I am convinced this can be done without hurting the quality of the education our students receive. For example, I believe the Brookhaven School of the Arts can be merged into the existing Mississippi School for Math and Science to enhance quality education while achieving at least \$1 million in cost savings. To reduce administrative costs and eliminate duplication of programs, we should better align our resources for career and technical programs at the Department of Education with the ongoing workforce training initiatives at our community and junior colleges. Dual enrollment/dual credit opportunities will allow high school juniors and seniors to learn a trade while earning credits toward both a high school diploma and college credential. Our top priority must always be to enhance educational opportunities for students. That mission is best accomplished when maximum dollars are put into the classroom and not spent on non-instructional activities.

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No area of education can be immune to spending reductions. I am asking most every agency to achieve a targeted savings of nearly 12 percent, and I expect the same from our educational communities. Despite record enrollment at our community and

junior colleges, it is imperative that these institutions find ways to save. Elimination of campuses, particularly satellite campuses, should be considered. These institutions need to reduce costs by consolidating 15 separate institutions into no more than five separate entities. Consideration should be given to changing the SBCJC from a Coordinating Board to a Governing Board, as is the case with K-12 and the Institutions of Higher Learning. If not, consideration should be given to eliminating the SBCJC and saving its \$8 million operating budget. As a state, we must examine the elimination or downsizing athletics at community and junior colleges. Community and junior colleges, which collectively spend \$22 million on athletic programs alone, should re-evaluate what is necessary to achieve their educational goals.

At a time when the focus must be on efficiencies and excellence, we must recognize the fallacy of dividing our limited IHL funding between eight public universities. Consideration should be given to either closing or consolidating several of the institutions, resulting in administrative and personnel savings. For example, close Mississippi University for Women and Mississippi Valley State University; make MUW a specific mission branch of Mississippi State University; make MVSU and Alcorn State University specific mission branches of Jackson State University, resulting in one of the top historically African American universities in the nation. Consolidation does not mean we will close the doors of MUW, MVSU or Alcorn. Students will still have access to these institutions through educational programs vital to their respective regions of Mississippi. Another efficient method of saving costs would be to consolidate or eliminate programs not pulling their financial weight.

I recommend the agricultural units at Mississippi State and Alcorn State universities reduce state taxpayer-funded spending more aggressively than the university education units through consolidation of operations and research. While all programs carried out by the agricultural units serve a purpose, we can only afford to perform the activities that are absolutely essential to this critical industry. Non-essential activities should not be funded with general state taxpayer dollars. In order to provide greater management flexibility to carry out essential functions, I also recommend the four Mississippi State units operate under one budget instead of being budgeted separately as they are now.

Closely related to our educational institutions is the state's library system. Libraries are, first and foremost, a function of the local government structure and should be funded accordingly. My budget recommends a reduction of \$3.1 million in state subsidies for local libraries for the Mississippi Library Commission.

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### ***Maintaining health and social services***

It is imperative the departments of Health, Human Services, Rehabilitation Services and Mental Health identify overlapping expenses and find ways to share costs. As a matter of good policy, we must increase home- and community-based services for Mississippians with disabilities. Enabling individuals to live their communities near

families and friends fosters independence and costs less than institutionalizing patients. No program in the health arena is immune to cost reductions.

The Division of Medicaid protects Mississippi's most vulnerable citizens by providing healthcare for low-income and disabled individuals. The state will continue to provide these vital services, but we will have to implement cost savings in order to keep the program viable.

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Unless legislative changes are made to the program, Medicaid will need \$200 million more dollars in FY 2011 than it received in FY 2010. In FY 2012, Medicaid will need an additional \$222 million for a total appropriation of \$875 million. Quite simply, the State of Mississippi can't afford a Medicaid program that costs \$875 million a year. We must reform Medicaid. We can start by implementing cost containment measures that will allow Medicaid to generate \$25 million in savings. The measures include: rolling-back non- long-term care and non-hospital provider rates; increasing the long-term care provider assessment due to increased revenues for these providers; re-evaluating all hospital inpatient provider rates; implementing ambulatory payment class reimbursement rates for all hospital outpatient reimbursement and implementing lower-of-logic for all Medicare Part B crossover claims. Many of the measures require statutory changes and without legislative action, the Division will be unable generate \$25 million in savings. In addition, Medicaid will cut its administrative budget by 7 percent, producing \$4 million savings.

For FY 2011, we must raise the hospital assessment from \$56.75 million to \$75 million. Last year, the Legislation passed a partial tax on hospitals due to the additional funding the state is receiving from the stimulus package. The stimulus package has provided some relief in funding the program, but, unfortunately, the funding runs out in the middle of FY 2011 and Medicaid will need an additional \$220 million. Raising the hospital assessment to \$75 million will generate will generate needed revenue for the state.

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Over the years, the State has relied heavily on institutional care to treat mentally ill individuals. Going forward, the State needs to commit fewer fiscal resources to institutional care and more fiscal resources to community-based services. The Department of Mental Health can save \$36 million by closing four Department of Mental Health facilities and six crisis centers. These include:

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- Central Mississippi Residential Center (includes one crisis center)
- Mississippi Adolescent Center
- North Mississippi State Hospital (includes two crisis centers)
- South Mississippi State Hospital (includes one crisis center)
- Brookhaven Crisis Center
- Cleveland Crisis Center

Closing the facilities will put a greater reliance on community-based services like those offered at the Community Mental Health centers. The Department of Mental Health is



working on contingency plans for each facility to ensure all patients continue to receive mental health services during the transition period.

The Department of Human Service must examine existing contracts and services and reduce its overall budget by 12 percent. One way to achieve this goal is to close the Oakley Training Facility, which costs the state roughly \$300 per child per day to care for 120 to 150 children. We can save \$22 million by closing the facility and redistribute a portion of these savings among local juvenile centers so they may absorb Oakley residents.

*Optimizing State Services*

In these stark budget years, significant savings cannot be achieved solely by purchasing fewer office supplies or traveling less. For real savings, we must make the tough decisions. Mississippi has more than 100 agencies, many of whom offer similar services. All have directors and hiring departments that manage a small staff. We have a responsibility to taxpayers to avoid redundancy and wasteful spending. The consolidation of our many boards and smaller departments into existing state agencies will reduce administrative costs and prevent the unnecessary duplication of certain tasks. The goal of agency consolidations should be to enhance the delivery of business and regulatory services through streamlining. This will save money while providing more efficient services back to taxpayers.

In addition, even agencies that are wholly special fund agencies can be combined to achieve savings. For example, the offices of Capital Post Conviction, Post Conviction, and Indigent Appeals can be combined to achieve savings of up to 15 percent of their combined budgets.

My budget recommends discontinuation of state support for two entities, the Mississippi Technology Alliance and the Commission on the Status of Women. The bulk of work done by MTA (which is not a state agency, by the way) can be performed by the Mississippi Development Authority. Likewise, I am recommending that the Commission on the Status of Women be rolled into the Attorney General’s Office, which can perform the duties of this Commission if they so choose.

To ensure we are spending taxpayer money in the most efficient way possible, Mississippi should develop and implement a comprehensive program to achieve significant cost-savings through aggressive administrative initiatives, such as bulk purchasing and joint procurement. The Department of Finance and Administration, in conjunction with the Institutions of Higher Learning and the Community College system, should work cooperatively to identify areas where combined buying power can result in significant savings on everyday supplies, such as paper, office supplies, and other necessary operational equipment. I am confident many savings can be realized in this area, particularly by ensuring competitive pricing on goods and services.

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Agencies like the Department of Corrections and Medicaid have already worked to renegotiate state contracts, thus far with success. I believe their good example should be followed by every state agency that has contracts with an outside vendor. After all, these difficult economic times are felt by all areas of the economy, not just state government, and in many cases I believe state agencies will find that these private companies are more than willing to renegotiate better deals that will result in cost-savings for the state.

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As a matter of general budget policy, I believe Mississippi should re-evaluate the current process for collecting revenue. Today in our state, some agencies are “special fund” agencies, meaning they operate from revenue generated from a specific service, while other agencies are funded through “general fund” dollars, which includes revenue generated from avenues such as sales and income taxes. A better and more equitable way to collect revenues – which are all taxpayer dollars – is to deposit all monies collected by the state into one general fund. This way, the Legislature and the Governor are better able to distribute money to agencies based on state priorities, as well as increase the level of accountability placed on special fund agencies.

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#### *Modernizing the state’s technology capabilities*

When I was first elected Governor, my top priority was to clean up the more than \$700 million deficit I inherited through the largest cost-savings initiative in Mississippi, “Operation Streamline.” Because of our joint commitment to digging Mississippi out of its budget hole, I am proud to say that the Legislature and I were able to get Mississippi back in the black in only two and a half years.

Part of our strategy to realize increased revenue collections was to provide additional funding to the Mississippi State Tax Commission so that it had the appropriate staffing levels to capture taxes owed to the state. However, we must also realize that in addition to manpower, it is critical that our tax collection agency utilize modern technology in order to operate more efficiently and effectively. Toward that end, I am proposing an increase of **\$6 million (fact check)** for the MSTC to hire new auditors (read: revenue generators), which I believe is a much-needed step forward in helping Mississippi reclaim a large portion of the estimated **\$140-250 million (fact check)** in known and unknown liabilities owed to the state. In a period of declining revenues, we must be careful to root out inefficiencies in every agency while keeping our revenue generators, like the MSTC, fully operational.

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The Tax Commissioner has assured me that a state investment of \$33 million for purchasing new software will enable to the MSTC to significantly enhance revenue collections. It is obvious not only to me, but to most members of the Legislature, that the longer we wait to purchase this much-needed software, the less revenue we collect for funding essential services of state government. Therefore, I will support efforts to identify an appropriate revenue source for funding this software purchase.

Mississippi should embrace new technologies that are being utilized both in the private and public sectors to achieve cost-savings while also improving efficiencies and service. In essence, modernization of state government operations should be the standard. For example, as the Department of Information Technology Services rightly points out, significant cost-savings as well as improved performance could be achieved by consolidating duplicative IT hardware, software, and personnel across all state agencies. A more streamlined approach to technology purchasing, coupled with a centralized e-mail system, could improve state government operations. Additionally, I believe it is critical that we arm the ITS Board with the necessary authority to make technology expenditure approvals based on whether or not the request is in alignment with the state's IT plan, as well as whether or not the agency's request would duplicate similar technological infrastructure in other areas of state government.

To accomplish these innovative ideas, there will be initial one-time costs, particularly in the area of IT. I am willing to commit a portion of my remaining discretionary stimulus funds to help get these initiatives started, so that Mississippi can realize cost-savings without shoring up the initial funding to get these programs implemented. I believe we must also find ways to invest in technology upgrades that will save money in the short and long-terms, such as the Tax Commission's Integrated Tax Management System and DFA's enterprise resource planning system, known as MAGIC. Providing dollars to these critically-needed upgrades will not only save money, but will improve accountability and increase efficiency among all areas of state government.

#### ***Privatizing wine sales to increase revenue, improve service***

During my January 2009 State of the State address, I committed that my Administration would look to see if we could improve performance and save money by contracting parts of services performed by governmental entities, such as the Bureau of Alcohol Beverage Control. After a detailed analysis, I believe Mississippi can generate an additional \$2.5 million in new revenue by privatizing the wine functions of ABC. I will continue working closely with Commissioner Morgan to draft enabling legislation for a competitive bidding process to handle wine operations, thereby ensuring Mississippi not only improves services, but also collects additional revenue.

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#### ***Effective Management of Natural Resources and Agriculture***

Five years ago, I suggested combining the Mississippi Forestry Commission and the Department of Agriculture and Commerce as a way to streamline services and share expertise. I renew my proposal for FY 2011 as we stare down a budgetary cliff. The State of Mississippi is one of only seven states in the nation to manage its forestry program as a stand-alone state agency. Other states oversee forest management through agricultural, environmental or natural resources departments. Additionally, folding several smaller, independently budgeted agencies – the Soil and Water Conservation Commission, the Board of Animal Health, the Fair Commission, the Board of Registered Foresters, the Egg Marketing Board, and the Board of Veterinary Medicine – into a single

larger agency will result in administrative savings for all aggregate functions. Creating a new Mississippi Department of Agriculture and Forestry will save the state over \$4 million.

Once executed, combining these agencies into one will result in better services and taxpayer dollars saved year after year, but in order to achieve targeted savings in the first year, the newly formed agency must be free from the restrictions of the State Personnel Board. Without the necessary management flexibility to form a streamlined organizational structure, it will take much longer for the agency to realize savings while wading through the cumbersome regulations of the State Personnel Board. With the dire condition of the budget, we simply don't have time to operate under unnecessary restrictions.

***Streamlining Business Services and Historic Records***

I am proposing to streamline certain business services and regulation by consolidating the Department of Banking and Consumer Finance and the Oil and Gas Board into the Secretary of State's Office. Among other duties, the Secretary of State's Office currently regulates and monitors businesses operating in Mississippi through registration, licensing, and recordkeeping. By combining the functions done by these other agencies with the duties already performed by the Secretary of State's Office, the state can save money through administrative efficiencies and return a greater share of revenue generated at this agency to the General Fund.

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Additionally, the recordkeeping and historic preservation responsibilities of the Department of Archives and History can be managed by the Secretary of State's Office. Merging the Department of Archives and History into the Secretary of State's office is a natural fit that saves the state an estimated \$3 million.

Once executed, combining these agencies into one will result in better services and taxpayer dollars saved year after year, but in order to achieve targeted savings in the first year, the newly formed agency must be free from the restrictions of the State Personnel Board. Without the necessary management flexibility to form a streamlined organizational structure, it will take much longer for the agency to realize savings while wading through the cumbersome regulations of the State Personnel Board. With the dire condition of the budget, we simply don't have time to operate under unnecessary restrictions.

***Keeping the Public Safe***

One of government's critical functions is to ensure the public's safety. Our troopers, crime investigators and prison guards must have the support and equipment necessary to protect our communities. To guarantee there is enough money to buy basic supplies, innovative strategies are needed to trim costs by 8 percent.

- The inmate population has fallen by 1,300 people this fiscal year, which means there are empty beds and partially utilized prison units. MDOC needs to review how its capacity is distributed throughout the system and find efficiencies.
- Find additional savings from payments made to medical providers through the Division of Medicaid for inmate healthcare.
- Broaden the range of inmates eligible for the 30/30 Trusty Time program. The 30/30 Trusty Time program allows a trusty who meets eligibility requirements to earn a 30 day reduction of sentence for each 30 days of trusty work. I propose allowing 4,000 inmates convicted of sale and manufacture of a controlled substance with the intent to sell to participate in the program.
- Reduce the reimbursement rate for local confinement by 33 percent. State inmates provide a valuable source of labor for Mississippi counties and benefit the local communities.

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The Department of Public Safety can find savings by examining the size of the non-law enforcement workforce and contract employees. I propose shifting the Department of Transportation Enforcement Division to DPS. Officers in both agencies perform similar functions and would communicate more effectively under the same administrative umbrella. This can only improve the public's safety on the state's highways and roads – the ultimate goal of government.

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#### *Maximum Flexibility for Executive Directors to Right-Size Agencies*

State government should always strive to deliver services in the most efficient and effective manner, but the need to do this is accentuated during tight budget years. Our managers in state government must be afforded more flexibility to manage; after all, with more flexibility our managers can better align their services to the needs of the people – and save money.

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From a historical perspective, we know this type of flexibility works. Just a few years ago, the Legislature granted maximum flexibility the Mississippi Department of Corrections and the Department of Agriculture, which were able to save \$14.9 million and \$40 million, respectively, without reducing the quality of services provided. Every agency should be allowed to come out from under the restrictions of the State Personnel Board for at least two years, which will allow directors maximum discretion in right-sizing their organization. If the Legislature grants our managers with this limited opportunity, I am confident they will not only meet, but far exceed their mission of achieving increased efficiencies and cost-savings.

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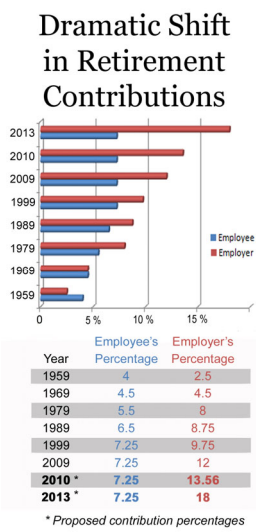
In addition to freeing our agencies from State Personnel Board restrictions, I am also recommending a 12 percent reduction in the \$140 fee per PIN charged to state agencies to fund State Personnel Board operations. By reducing this fee to \$123.20, we

are aligning the fee structure to reflect the 12 percent reduction that most of state government will see in FY 2011, as well as providing our agencies with some budgetary relief.

Budget flexibility by awarding “lump sum” appropriations should be the standard. After all, some agencies are already afforded this opportunity, which allows them the flexibility in moving funds between budget and major objects of expenditure as circumstances dictate. However, most agencies are constrained by statutes and budget structures that provide insufficient flexibility to address the type of dynamic program requirements that will come as a result of budget cuts and the government reform proposals suggested within this executive budget recommendation. It is time for the Legislature to have faith in our agencies to do what’s right, by allowing them maximum budgetary and right-sizing flexibility. I have confidence the public servants leading our state agencies and departments can act responsibly by identifying savings while continuing to maximize value and service to all Mississippians.

*Ensuring the Integrity of the State Retirement and Health Insurance Systems*

Due to unsustainable benefit enhancements passed during the late 1990s and early 2000s, along with the recent market downturn, increased costs associated with the state retirement system are inevitable. What we must be wary of, however, is continuing to turn a blind-eye to wrongheaded policies that only saddle the state, through her taxpayers, with an unnecessary financial burden.



Beginning in the late 1990s through 2002, the Legislature approved benefit enhancements for the state employee retirement system, which we now know has exponentially increased the cost of funding the system. Notably, these enhancements included a guaranteed three percent cost-of-living-adjustment each year until age 55, and compounded thereafter, as well as several benefit accrual increases – with a collective price tag of more than \$3 billion in system liability costs. That means Mississippi taxpayers pay more than \$700 million annually to fund the retirement system.

In October, the Public Employee Retirement System (PERS) Board voted to increase the state’s contribution for retirement benefits by a full 1.56 percent, from 12 percent to 13.56 percent, resulting in a hit of nearly \$71 million to the state budget. This number does not include the increased cost to other entities covered by PERS, such as county and municipal governments, of approximately \$20.3 million.

Collectively, this 1.56 percentage increase in the employer contribution rate means that Mississippi taxpayers will have to shore up more than \$90 million to pay for retirement

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benefits for government workers...whose contributions to the retirement system have not been increased in almost two decades.

What's more, the PERS Board has proposed a long-term plan that would increase the employer contribution rate by more than 6 points higher than it is today. To put it in numerical terms, that's a total employer contribution rate of 18.41 percent, or a whopping \$350 million in new annual costs to fund the retirement system.

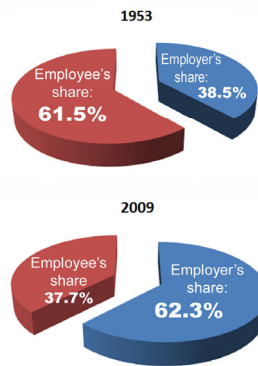
While citizens are being asked to pay for increased costs in the retirement system, employees (who are the beneficiaries of the PERS program) haven't paid more money into the system since 1991. During this same period, the cost to the state has risen by 23 percent. We cannot continue to leave the state retirement system unchecked; indeed, we must recalibrate the ratio of contributions paid by employers and employees to ensure the system has integrity, equality, and is sustainable in the long-term.

Therefore, in order to offset increased costs associated with the retirement system, I am recommending that employees, not the state, be responsible for providing the additional 1.56 percent in contributions for FY 2011. State law authorizes the PERS Board to set the employee contribution rate in order to maintain the benefits that have been promised to state employees, and I am calling on this board to step up to the plate to adopt a responsible and appropriate employee contribution rate that keeps these benefits intact. As a long-term funding goal, I am recommending that the PERS Board and the Legislature return equity to the funding system by avoiding unsustainable benefit enhancements as well as ensuring the ratio of employer and employee contributions is not only fair, but fiscally responsible.

As a general retirement policy, Mississippi should also have a better way to manage benefits paid to retirees who continue service with the state. We must be aggressive in our pursuits to identify those individuals who are "double-dipping"; that is, they are continuing to get paid retirement benefits and are drawing monthly salaries from the state. I commend the Legislature for its proactive work on this issue during the last legislative session, which required documentation to be filed regarding all retirees who continue working for the state. We should build on their legislative work to ensure retirees who continue working for the state in any capacity also continue contributing to the funding of the state retirement system: After all, it's the fair thing to do.

Another related yet critically important area of reform is the state health insurance plan. As healthcare costs continue to increase dramatically, fundamental changes to the state and school employees' health insurance plan must be made.

## Make up of Total Retirement Contribution



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It is my understanding that the Health Insurance Board will meet in March 2010 to vote on final changes to the state's health insurance plan. As a preliminary measure, the Board voted to increase premiums by 11 percent, resulting in a cost to the state of approximately \$58 million. This figure is unacceptable, particularly when the health insurance fund maintains a reserve balance upward of \$182 million. However, I am pleased that the Board will meet again to address this very important issue.

It is clear to me, also, that the Board is demonstrating a serious commitment to keeping costs low by developing several proposals that would help mitigate rising costs to the state. Instinctively, we know there are some areas where true costs savings can be achieved, such as implementing programs to encourage usage of generic drugs and implementing a surcharge for tobacco users, who are generally associated with higher costs to the system. I look forward to receiving the Board's final proposals and will work with them to enact legislative changes, where appropriate.

***GOVERNOR: DO YOU WANT TO INCLUDE THE FOLLOWING SECTION ON THE HEALTH INSURANCE EXCHANGE THIS YEAR OR REMOVE?***

***Affordable health insurance***

While the healthcare debate has reached a fever pitch on Capitol Hill, Mississippi has had a plan to provide quality medical care to uninsured individuals. My proposed Mississippi Health Insurance Exchange is designed to give Mississippians a way to buy, own and keep health insurance from job to job. A voluntary, portable and affordable option is good for Mississippi families and businesses. While the Senate has supported this plan repeatedly, the House has not.

The plan creates a state-authorized health insurance exchange for health insurance options, and participation is voluntary. For small businesses the exchange would assume much of the administrative functions similar to a human resources department at a large corporation.

Under the program, small businesses would contribute a pre-designated amount of money toward the cost of an employee's health insurance. By noting the "exchange" as the employer's health plan, the contribution becomes tax-free for the business, and the health benefit is tax-free for the employee.

For employers, the Mississippi Health Insurance Exchange reduces administrative costs and time lost to shuffling paperwork. For individuals and families, the program provides more options for affordable healthcare and peace of mind that comes with knowing your doctor visits are not dependent on your employer. While this is not a cure-all for stunting the rising cost of healthcare or the availability of insurance, a health



insurance exchange is worthwhile action our state can take to address the shortcomings of our healthcare system.

### ***Strategic planning key component of effective budgeting***

In 2008, I asked Lieutenant Governor Phil Bryant to lead a task force to root out waste and inefficiency in state government. Over the course of the past year, the Commission for a New Mississippi has been working to develop a plan to achieve this mission, with final recommendations centering around three points: having a strategic, statewide plan that is well-communicated across governmental entities; reforming performance-based budgeting, and creating a state agency from existing entities to provide continuous review and improvements of state government operations.

I urge the Legislature to consider adopting these meritorious proposals, which I believe can have long-term implications for improving the current budgeting process. Now, more than ever, we must think differently about the way state government is operated, including how the budgeting process relates to efficiency and effectiveness in all of state government. I sincerely appreciate the Lieutenant Governor and commission members for their thoughtful plan that addresses these very issues.

### ***Conclusion***

We face historic challenges in funding the various facets and functions of state government in the coming years. In the face of these difficulties, we must make bold decisions that will have far-reaching effects into the structure and operations of almost every office receiving state taxpayers' dollars.

As I have said many times, Mississippi is not immune to the movements in a global economy. The momentum we had, I believe, played a key role in bringing us into the recession later than many states. Similarly, the decisions budgetary decisions we make in this and subsequent years will play a big part in how quickly we emerge from the down economy. One thing is absolutely clear: This is not the time to raise taxes on the people and businesses of Mississippi. While it places an additional burden on families and businesses and it delays economic recovery, raising taxes allows politicians to put off making tough choices.